

The African Development Bank Group Chief Economist Complex



Market Brief

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1. Market Commentary

1.1 Stock Markets

During the week of 6 – 10 December 2010, African stock markets showed mixed performance despite rallies in the major global stock markets due to a tax cut package negotiated by President Obama and congressional Republican leaders and submitted to the Senate, higher-than-expected consumer confidence, and speculation in Europe that profits will be strong despite the sovereign-debt crisis.

Four out of the ten monitored African stock markets recorded gains in line with the major global markets over the week. The largest gain of 3.5% was registered by the stock market in Ghana, followed by substantial increases of 3.3% and 2.7% in the markets in Morocco and Egypt, respectively. On the other hand, six African markets reported losses in value. The market in Nigeria recorded the largest fall of 1.5%, followed by the market in Côte d'Ivoire, which posted a loss of 1.3%. The markets in Tunisia, Uganda, Mauritius, and Kenya registered minor losses (less than 0.8%).

Equity Focus

Ghana: The Ghana All Share Index picked up by 3.5% over the week on optimism that Ghana's first crude oil exports will hit the market early January. According to the government's budget speech the economy

is now forecasted to double its growth rate to 12.3 % next year. The budget speech also envisioned a hike in fuel prices of between 0.02 and 0.08 Cedis per litre to fund the repayment of debt owed by state-owned Tema Oil Refinery to creditors including Ghana Commercial Bank (GCB). GCB shares rose by nearly 12 % on the news.

Nigeria: The NGSE All Share Index fell by 1.5% over the week, as a majority of the blue chip companies on the Nigerian Stock Exchange, including Cutix Plc and Vitafoam Plc, incurred losses. The negative sentiment was partly driven by the negative profit before taxation reported by UNIC Insurance.

1.2 Commodity Markets

Crude Oil (Brent): The price of Brent crude oil dropped by 1.6% on concern that Europe's debt crisis and the expected increase in interest rate by China, the world's largest energy user, will hurt fuel consumption. Besides, the strengthening of the U.S. dollar over the week reduced investor appetite for commodities.

Cotton: The price of cotton rose by 3.0% over the week, after the U.S. government slashed its forecast for inventories to the lowest in 14 years. U.S. stockpiles for the year ending July 31 will total 1.9 million bales, down 14 % from the November estimate. Cotton prices have surged 81 % this year, heading for the biggest annual gain since 1973.

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“In Côte d’Ivoire, cocoa volumes registered at Ivory Coast’s ports have slowed sharply. Only 16,174 tons of beans were registered by the official marketing body Bourse du Café et Cacao during the week ending November 28, down from 128,090 tons the week before....”

“In Ghana, the parliament approved an amendment to the Petroleum Revenue Management Bill that would allow up to 70% of the government’s share of oil revenues to be used as collateral for loans....”

1.3 Exchange Rates

The African currencies showed mixed performance against the U.S. dollar, while the Euro remained almost unchanged over the week. The upward pressure on the Euro due to the U.S. Federal Reserve’s openness to injecting more funds into the economy has been offset by the downside forces driven by European ministers ruling out immediate aid for debt-ridden Portugal and Spain, as well as President Obama’s agreement to a tax-cut proposal which improved the growth outlook for the U.S. economy.

Twenty two African currencies rose against the U.S. dollar. The Mozambique New Metical led the winners, recording a gain of 2.5 % in the interbank foreign exchange markets, followed by the Congolese Franc, the Zambian Kwacha, the Liberian Dollar, the Guinea Franc, and the South African Rand, which registered significant degrees of appreciation of between 1.1% and 2.2 %. Sixteen other currencies registered gains of less than 0.9% against the U.S. dollar, reflecting the tendency at the end of the year that imports by the manufacturing sector decline while receipts of foreign exchange from tourism and remittances rise. On the other hand, thirteen African currencies fell vis-à-vis the U.S. dollar over the week, with the largest loss of 1.6% being posted by the Mauritania Ouguiya.

2. Regional Developments

Africa: A memorandum of understanding has been signed by the Alliance of Small Island States (AOSIS), the World Bank, UNDP, and the Danish Government. The agreement recognizes the disproportionate harm of climate change for small island developing states in the Africa, Caribbean, and Pacific Islands regions and aims to support island countries to scale up their renewable energy efforts and shift towards greater energy efficiency. An 80 million Danish kroner (\$US14.5 million) has been pledged by the Government of Denmark to

kick-off the initiative.

Citigroup Inc announced its intention to expand its presence in Africa. The bank viewed Africa and the continent’s biggest economy, South Africa, to have major roles to play in the new financial world where growth will be driven by emerging markets and globalization. Being the third largest U.S. bank by assets, Citigroup has a presence in more than 15 countries on the continent. It faces stiff competition as other Western banks target the growing trade flows between Asia and resource-rich Africa. For example, Standard Chartered makes about 10 % of its pre-tax profit from Africa, while Barclays has a controlling stake in South Africa’s Absa and a presence in 9 others countries on the continent.

3. Countries in Focus

Côte d’Ivoire: Cocoa volumes registered at Ivory Coast’s ports have slowed sharply. Only 16,174 tons of beans were registered by the official marketing body Bourse du Café et Cacao during the week ending November 28, down from 128,090 tonnes the week before. The drop-off came in the lead-up to the country’s presidential election, with exporting companies shutting down their port operations for fear of poll-related violence. Cocoa futures hit four-month highs this week after the two presidential candidates claimed victory in the run-off, raising worries the West African country could tip back into conflict.

Egypt: The state statistics agency CAPMAS announced that the year-on-year urban consumer price inflation had fallen from 11 % in October to 10.2 % in November. In contrast, the core inflation, which excludes subsidized goods and volatile items such as fruit and vegetables, surged from 7.7 % year-on-year in October to 8.6 % in November. The discrepancy between the two price indicators partly reflects a pronounced increase in subsidies on essential goods during the 2009 crisis period.

“Seychelles has cut its external debt to \$449 million from \$789 million two years ago following restructuring deals ...”

Ghana: The parliament approved an amendment to the Petroleum Revenue Management Bill that would allow up to 70% of the government's share of oil revenues - estimated initially to be roughly 6% of total budget receipts - to be used as collateral for loans. Some analysts worry Ghana's oil wealth may trigger a borrowing and spending spree, in the context of the Government's agreements to borrow more than \$14 billion from China.

Mauritius: The central bank kept its benchmark repo rate at 4.75 %, but several members of the Monetary Policy Committee (MPC) noted inflation could rise faster than previously anticipated. Average annual inflation remained benign at 2.5 % in November, though up from 2.3 % in the previous month. The MPC assessed the economic recovery to be on track and forecast growth of around 4.2 % in 2010.

Mozambique: The Government has estimated its 2011 budget at \$3.8 billion, up from \$3.4 billion in the previous year. It expects to cover 54 % of the budget through taxes, with the remainder coming from loans and donations.

Seychelles: The country has cut its external debt to \$449 million from \$789 million two years ago following restructuring deals. It defaulted on some debt payments as the global financial crisis hit in October 2008 and the International Monetary Fund stepped in with an emergency \$26 million rescue package a month later. Since most of the Paris Club creditor countries signed individual restructuring agreements with the government in 2010, the average life of its debt portfolio has risen from 6 months to 13 years.

South Africa: Manufacturing output grew by 2.5% year-on-year in October, compared with the 1.3 % rise in September. Analysts said growth in manufacturing output was still weak, reflecting a strong Rand and sluggish global and local economic recovery. The Reserve Bank worried that austerity measures in Europe could derail growth.

Tanzania: The Government has revived plans to issue a debut sovereign Eurobond worth \$500 million to finance infrastructure projects. It is expecting the first credit rating within 6 months. Analysts say the country's large fiscal deficit and significant structural current account shortfall present downside risks to the rating process. Tanzania has been criticized for imposing foreign exchange restrictions and not allowing foreign investors to purchase domestic fixed income securities.

4. Development Partnerships

EIB/AFD/KfW-Tunisia: Tunisia obtained a 297 million Euro loan from the European Investment Bank (EIB), the French Development Agency (AFD) and the German KfW to finance part of a rail network project. The EIB provided a 177 million Euro loan while the French and German agencies lent 50 million and 70 million Euros, respectively, for the rail scheme whose overall costs amount to 1.8 billion Euro.

5. Summary

During the week of 6 – 10 December 2010, African stock markets recorded a mixed performance, largely in line with the mixed performance in the commodity markets. While some global financial institutions like Citigroup eyed Africa for their expansion, African governments such as Ghana and Tanzania plan to tap the global liquidity of long-term capital seeking high returns to finance their development projects. Seychelles succeeded in making its debt more sustainable through restructuring deals. Besides, manufacturing output growth picked up slightly in South Africa.

“In Tanzania, the Government has revived plans to issue a debut sovereign Eurobond worth \$500 million to finance infrastructure projects....”

Appendix Table 1: Stock market movements – Week ending on 10 December, 2010

Stock Markets						
Region/Country	Index Name	Index Code	Market Capitalization (USD, million) (10-12-2010)	Weekly % change (03-12-2010)		Year-to-date % Change
				Week under review	Previous week	Dec 31 - Dec 10
Côte d'Ivoire	BRVM Composite Index	BRVM CI	5,333	▼ -1.27	▲ 0.80	▲ 24.8
Egypt*	CASE 30 Index	CASE30	19,104	▲ 2.74	▼ -2.16	▲ 10.7
Ghana	Ghana All Share	GSE	13,594	▲ 3.54	▲ 0.72	▲ 29.9
Kenya	Nairobi SE Index- NSE 20	NSE 20	15,028	▼ -0.04	▼ -1.93	▲ 35.0
Mauritius	Mauritius AllShares	SEMDEX	5,451	▼ -0.32	▲ 0.85	▲ 15.5
Morocco	Casa All Share Index	MASI	15,383	▲ 3.33	▲ 2.35	▲ 22.7
Nigeria	NGSE All Share Index	NGSE	47,144	▼ -1.46	▲ 0.78	▲ 17.4
South Africa	All Share Index	JALSH	746,298	▲ 0.36	▲ 0.63	▲ 13.8
Tunisia	Tunis se Tnse Index STK	TUNINDEX	2,948	▼ -0.83	▼ -0.62	▲ 21.3
Uganda*	Uganda SE All Share index	USE	5,460.3	▼ -0.78	▼ -1.50	▲ 61.8
Others						
USA	Dow Jones Industrial	DJ Index	3,603,517	▲ 0.25	▲ 2.62	▲ 9.4
France	CAC 40 Index	CAC40	933,888	▲ 2.85	▲ 0.59	▼ -2.0
Japan	Nikkei 225 Index	N225	2,419,146	▲ 0.33	▲ 1.38	▼ -3.2

* Value at end of 9 December, 2010

Appendix Table 2: Exchange rate movements – Week ending on 10 December, 2010

Exchange Rates (currency per US\$)								
Region/Country	Currency Name	Currency Code	Weekly % change (10-12-2010)		Year-to-date % Change			
			Week under review	Previous week	Dec 31 -Dec 10			
Africa								
Algeria	Algerian Dinar	DZD	▲	0.03	▼	-0.06	▼	-2.4
Angola	New Kwanza	AON	▼	-0.02	▼	0.00	▼	-3.4
Botswana	Pula	BWP	▲	0.69	▲	0.15	▲	0.7
Burundi	Burundi Franc	BIF	▲	0.02	▲	0.17	▲	0.9
Cape Verde	Escudo	CVE	▲	0.06	▼	-0.71	▼	-10.9
Comoros	Comoros Franc	KMF	▼	-0.01	▼	-1.06	▼	-7.8
Congo. Dem. Rep. of	Congolese Franc	CDF	▲	2.15	▼	-2.21	▼	-11.2
Djibouti	Djibouti Franc	DJF	▲	0.31	▼	-0.50	▼	-2.1
Egypt	Egyptian Pound	EGP	▲	0.16	▼	-0.36	▼	-5.1
Ethiopia	Birr	ETB	▼	-0.11	▼	-0.10	▼	-23.2
Gambia. The	Gambian Dalasi	GMD	▲	0.81	▼	-2.38	▼	-7.2
Ghana	New Cedi	GHS	▼	-0.40	▲	0.11	▼	-1.2
Guinea	Guinea Franc	GNF	▲	1.10	▼	-2.05	▼	-29.6
Kenya	Kenyan Shilling	KES	▲	0.23	▲	0.24	▼	-5.2
Liberia	Liberian Dollar	LRD	▲	1.44	▼	-0.71	▲	0.7
Libya	Libyan Dinar	LYD	▲	0.51	▼	-0.83	▼	-0.8
Madagascar	Ariary	MGA	▼	-1.35	▼	-3.38	▼	-6.8
Malawi	Kwacha	MWK	▼	-0.82	▲	0.56	▼	-3.5
Mauritania	Ouguiya	MRO	▼	-1.59	▲	0.49	▼	-7.3
Mauritius	Mauritius Rupee	MUR	▲	0.29	▼	-1.65	▼	-1.5
Morocco	Dirham	MAD	▲	0.22	▼	-0.98	▼	-6.3
Mozambique	New Metical	MZN	▲	2.47	▲	1.13	▼	-20.2
Nigeria	Naira	NGN	▼	-0.91	▲	0.23	▼	-0.8
Rwanda	Rwandan Franc	RWF	▼	-0.52	▲	1.03	▼	-3.5
São Tomé & Príncipe	Dobra	STD	▲	0.88	▼	-2.49	▼	-15.3
Seychelles	Seychelles Rupee	SCR	▼	-0.04	▼	-0.09	▼	-9.0
Sierra Leone	Leone	SLL	▼	-0.35	▲	0.93	▼	-6.5
Somalia	Somali Shilling	SOS	▲	0.03	▼	-0.54	▼	-7.4
South Africa	Rand	ZAR	▲	1.07	▲	1.13	▲	7.3
Sudan	Sudanese Pound	SDG	▼	-0.28	▼	-0.76	▼	-3.1
Tanzania	Tanzanian Shilling	TZS	▲	0.81	▼	-0.38	▼	-9.3
Tunisia	Tunisian Dinar	TND	▲	0.12	▼	-0.84	▼	-8.1
Uganda	Uganda Shilling	UGX	▼	-0.67	▼	-0.09	▼	-17.4
Zambia	Zambian Kwacha	ZMK	▲	1.63	▼	-1.77	▼	-2.0
CFA zone Countries*	CFA Franc	XOF	▲	0.37	▼	-1.26	▼	-7.8
Others								
Europe	Euro	EUR	▲	0.00	▼	-1.38	▼	-8.2
Japan	Yen	JPY	▲	0.21	▼	-0.61	▲	10.0

Sources: ADB Statistics Department December 2010.

Note: The exchange rates are from the interbank foreign exchange markets.